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Weekly Intelligence Summary No. 16

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DDA REG. 177/1763948Date: 1 MAR 79 By: 028**SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS**

The recently concluded air arrangement between Hungary and the Netherlands providing for service between Budapest and Amsterdam, has brought into sharp focus US interim air policy with regard to the Satellite States. In order to place this commercial air service in operation, however, it would be necessary for Hungarian aircraft to overfly either the US or UK zones of occupation. Since the abrupt rejection by Hungary of US proposals for a reciprocal US-Hungarian air agreement, the US has refused Hungarian requests for overflight of US zones. The US, furthermore, is urging the UK to adopt a similar policy for the UK zones and thus make possible an effective block to Satellite commercial air traffic with Western countries by Satellite States which have refused to accord reciprocal rights over their territory to US aircraft. The willingness of Satellite States to grant reciprocal rights to US commercial aircraft will, however, be dependent upon the degree of importance which the USSR attaches to their commercial air relations with the West.

Brazilian acceptance of Argentine-proposed restrictions contained in the recently signed air transport agreement between the two countries, represents a possible modification of Brazilian air policy inimical to US interests, particularly in view of Brazil's planned negotiation of air agreements with Switzerland, Italy and Spain in the near future.

The aim of Canada's new long-range merchant marine program will be to:

- (1) dispose of a comparatively slow fleet in favor of new high speed vessels;
- (2) provide a backlog of orders for Canadian shipyards; and (3) create and maintain an adequate merchant fleet. While the economic aspects of this new merchant marine policy are obvious, the strategic implications of such a policy for Canada should not be overlooked.

An indication of possible Soviet desire for initiation of East-West "A" traffic on the Danube is contained in a proposal made by Czechoslovakia that vessels now under US control travel east to Linz and there transfer cargo to Czechoslovak vessels. While this proposal is awkward, necessitating cargo transfers, it would provide a modus vivendi until the present Soviet attitude toward free traffic on the Danube is relaxed.

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## SECTION II. CURRENT DEVELOPMENTS

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The recently concluded air arrangement between Hungary and the Netherlands has brought into sharp focus US interim air policy with regard to the Satellite States. This air arrangement, provisional and revocable at any time, provides for commercial flights between Budapest and Amsterdam on a reciprocal basis. (This type of arrangement conforms to that which the US has adopted and has urged other countries to employ in negotiating air agreements with the Satellites.) In order to place this commercial air service in operation, however, it would be necessary for Hungarian aircraft to overfly either the US or UK zones of occupation. Since the abrupt rejection by Hungary of US proposals for a reciprocal US-Hungarian air agreement, the US has refused Hungarian requests for overflight of US zones. The US, furthermore, is urging the UK to adopt a similar policy for the UK zones and thus make possible an effective block to Satellite commercial air traffic with Western countries by Satellite States which have refused to accord reciprocal rights over their territory to US aircraft. The willingness of Satellite States to grant reciprocal rights to US commercial aircraft will, however, be dependent upon the degree of importance which the USSR attaches to their commercial air relations with the West.

Continued Argentine restrictionism and possible Brazilian defection from US leadership in civil air policy matters are indicated by the terms of the Argentine-Brazilian air transport agreement signed 2 June. By restricting the ability of air carriers of either country to increase the capacity or frequency of flights to territory of the other, the agreement sets a precedent endangering the normal development of US and other international airline operations. This provision, if generally accepted, would render impossible the necessary adjustment of available airline capacity to severe seasonal fluctuations in airline traffic.

In previous air transport negotiations, Argentina has consistently endeavored to restrict the entry of foreign aircraft into Argentine territory. Although forced to abandon this policy in certain instances (in order to obtain operating rights in other countries for her own international airline), Argentina still adheres to restrictionism in civil aviation whenever possible. Brazil, on the other hand, has generally granted liberal entry to foreign airlines. Brazilian acceptance of Argentine-proposed restrictions, despite the bargaining advantage implicit in her strategic location across Argentina's principal international air routes, represents a possible modification of Brazilian air policy inimical to US interests, particularly in view of Brazil's planned negotiation of air agreements with Switzerland, Italy and Spain in the near future.

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Canada is launching a long-range merchant marine program designed to encourage shipping companies to dispose of obsolete and obsolescent vessels and to build replacements in Canadian yards. This program will have the twofold purpose of disposing of a comparatively slow fleet (10 knots or less) in favor of high speed vessels and providing a backlog of orders for Canadian shipyards, thus avoiding a decline similar to that experienced after World War I. (Canada, like the US, engaged in a construction program during World War II and, considering the relative positions of the two countries, Canada's program was substantial. Most of these vessels, however, were slow freighters, unable to compete in world trade.) During the war years, the ocean-going merchant marine of Canada rose from only 37 to over 200 vessels. As of 31 December 1947, Canada ranked eleventh among the world's merchant fleets with 1,620,300 dead-weight tons.

While the economic aspects of this new merchant marine policy are stressed, the strategic implications of such a policy should not be overlooked. Rapid expansion during the war years, while imperative to the war effort, was, as in the US, necessarily wasteful and Canadian authorities are determined to create and maintain an adequate merchant fleet in being and thus avoid a possible repetition of World War II experience.

An indication of possible USSR desire for initiation of East-West traffic on the Danube is contained in a recent proposal made by Czechoslovakia that vessels of the German company, Bavarian Lloyd, whose vessels are now under US control, come as far east as Linz and there transfer cargo to Czechoslovak vessels. This would implement operations along the entire length of the Danube. (The USSR has stated that it will not interfere with the passage of vessels whose ownership is clearly established or which are not subject to seizure for reparations. It has been apparent, however, that the USSR considers the status of both German and Austrian vessels as undetermined and their operation in Soviet-controlled territory would be decidedly risky.) Under the proposal there would be no Allied hindrance west of Linz and it is unlikely that the USSR would interfere with traffic in Czechoslovak vessels operating in the Soviet zone of Austria and eastward through the Satellite States. While this proposal is awkward, necessitating as it does cargo transfers, it would at least provide a modus vivendi until the present Soviet attitude toward free traffic on the Danube is relaxed.

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France has not yet made a determined effort to fulfill its promises in regard to the return of freight cars to Bizonia and is apparently attempting by this means to increase car stocks in the French Zone. Unless France abandons this practice and makes good on its present commitments, sanctions may be applied by US-UK authorities through shutting off coal traffic with the French Zone. (Some officials have proposed that all French cars in the Bizone area be impounded and no more cars be allowed into the French Zone.) In the face of this possible counteraction, it is likely that France will now take steps to fulfill its commitments. Furthermore, until France demonstrates good faith in the matter of the exchange of freight cars, it will not stand to benefit through any substantial allocation of new rolling stock under the ECA program.

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